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Exporter Guide

Russia's Food Imports Reach Record Highs 2005

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Report Highlights:

Exporters to Russia can realize substantial business due to several ongoing trends. Russia is poised to purchase almost \$15 billion in food and agricultural products from abroad in 2005, over \$1 billion from the United States. Retail sales grew an impressive 12 percent in 2004 and reached \$198.3 billion. Forty-four percent of products sold through retail are imported products. Retail outlets have started to expand aggressively into the regions – new potential markets for quality, imported goods and prospective venues for marketing programs. The HRI sector grew at a fast pace as well. According to experts, 90 percent of food prepared in restaurants and cafes in Western Russia is imported. The local food processing industry has become one of the most dynamic sectors of the Russian economy, with an average increase of 15-20 percent per year. Processors are willing to meet international quality standards and focus on quality ingredients. Exporters should expect to support sales with a marketing effort that provides coaching and counseling to their importer. Effective relationship building is a key ingredient to success.

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SECTION I. MARKET OVERVIEW

KEY POINTS

- ❖ Russia offers U.S. exporters a potentially huge market – 143 million consumers
- ❖ High world prices for oil & natural gas, increase in sovereign credit ratings, stability in political situation cause overall economic development and consumer spending boom. Such dramatic growth is beginning to spread beyond Moscow and St. Petersburg to the regions
- ❖ World's 4th largest growing economy with 6 years of consecutive growth. GDP increased by 6.8 percent to \$570 billion in 2004.
- ❖ Per capita GDP reached almost \$4,000 in 2004. With 9% growth rate in 2004, real disposable incomes continue to outpace GDP growth
- ❖ Incomes in October 2005 were 24.5% higher than in October 2004 (Rosstat). According to experts, average wage in 2005 is \$1,200 for Moscow middle income buyers, \$400 for other regions' buyers
- ❖ Fast growing retail market. Retail sales grew an impressive 12% in 2004 to \$198.3 billion dollars of which \$80 billion was in food products. Forty-four% of products sold through retail are imported products. Moscow consumers continue to spend 70% of their incomes on consumer goods, the highest ratio in Europe (Interactive Research Group). Modern retail formats are going into regions increasing total demand for quality products
- ❖ The ruble and euro have continued to appreciate against the dollar
- ❖ Recognized as a "market economy" by US and European Union, Russia has made strides with its accession to the World Trade Organization

CHALLENGES AND ADVANTAGES FOR U.S. EXPORTERS

<i>Challenges</i>	<i>Advantages</i>
Distance being a major barrier complicates logistics and ties up importers' funds	Russia is the fastest growing retail market in the world, after China and India
Government bureaucracy and corruption	New format supermarkets are rapidly expanding to meet consumer demand, creating a good venue for imported products and taking sales from other channels
Competition from European countries in the Western Russia and Asia in the Russian Far East	Investors are building more efficient storage facilities, improve infrastructure and logistics
Misperception among Russian consumers against imported goods. Russians lack knowledge on the quality and benefits of US agricultural products	As part of the WTO accession process, Russia is moving towards international standards
Economic vulnerability, dependence on oil and mineral extraction for most wealth	Sanitary and Phytosanitary issues, when they are resolved, grow trade
Non-tariff barriers hold trade below potential	Consumers became less financially restrained and continue to shift towards better-quality products, growing middle-class
Limited acceptance of biotechnology	Fast food service and restaurants develop at incredible rate demanding new products.
	Greater emphasis on value-added production

	in food processing gives opportunities to new products
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SECTION II. EXPORTER BUSINESS TIPS

Being a developing market economy, Russia is full of both opportunities and challenges. There is a line of obstacles that newcomers as well as experienced players have to overcome to work successfully in this growing market.

Following are general marketing tips for newcomers to the Russian market:

- Take time to research the market for your product. The better you understand local conditions and opportunities, the more likely that you will succeed in finding a buyer.
- If/when you do travel to Russia to visit potential trade partners, don't expect to spend a few days and close a deal. That could happen, but a successful partnership may take months to develop.
- Pay attention to business fundamentals. Business basics - knowing your market, putting the customer first, and offering quality products - are as useful and necessary in Russia as in any other market.
- Don't let culture shock impair your business judgment. Some Russian business people are not friendly and open during first meetings. Still, many entrepreneurs are outgoing and speak good English.
- Don't expect to do everything at an American pace. While the business environment is improving, many things simply move at a different speed. A good example: Getting around by car or taxi in major cities, such as Moscow and St. Petersburg, can be especially frustrating. Build extra time into your schedule - you will probably need it.

There are several alternative marketing strategies that can be used to enter the Russian market. While there may be considerable overlap among these different types, four broad approaches can be identified:

- Sell directly to a Russian importer/distributor/processor.
- Use the services of an American trading or export management company.
- Sell to an agent/consolidator in Western Europe.
- Establish your own import and distribution facilities in Russia.

A U.S. company, operating on its own, will generally pay higher customs fees, face more difficult inspection procedures, and be forced to contend with more administrative delays than would a local importer. The local importer may or may not also be the distributor. This entity will serve as a conduit for products into Russia and can deal with the numerous barriers to bringing a new product into the country. A model employed by many successful exporters is to use a Moscow or St. Petersburg based trading company to act as primary customer and facilitator of imports. In fact, most imported products sold in Western Russia pass through Moscow and/or St. Petersburg. For the Russian Far East, Vladivostok is home to most importers and the principal import and transshipment point.

If an exporter is willing to invest the necessary time and effort, even to the extent of establishing a representative office, then dealing directly with fast-growing Russian processing companies will provide better margins and the opportunity to respond more quickly to the clients' demands. If the decision is made to establish local representation, this office should be located in Moscow and run by an experienced Russian national to ensure the greatest market coverage.

Following is an overview of local business practices and other information that could be important when considering entry into the Russian market.

ASSESSING THE MARKET FOR YOUR PRODUCTS

There are various aspects to determining whether your product has market potential in Russia:

- Review the information provided in *Section IV. Best High-Value Product Prospects* of this report.
- Participate in one of several established trade shows in Russia. This will allow you to take a first-hand look at the local market, meet potential importers, and gauge how competitive your product is compared to similar products being promoted at the show.
-
- Contact ATO Moscow, St. Petersburg and Vladivostok to request a brief market assessment for your product and/or a list of Russian importers.

TRADE SHOWS IN RUSSIA

World Food

Moscow

September

www.world-food.ru/eng

This USDA-endorsed event offers an excellent opportunity to introduce U.S. food products in Russia. In 2005, this 4-day show drew 1,100 exhibitors from 51 countries and attracted more than 50,000 importers, wholesalers, retailers, and processors from all parts of Russia and from many neighboring countries.

Prodexpo

Moscow

February

<http://www-eng.expoctr.ru/site/95/default.asp?section=3>

The Prodexpo International trade show is the largest show of foodstuffs in Russia and Eastern Europe that boosts development of the domestic and international food markets.

Interfood

St. Petersburg

April

www.primexpo.ru/interfood/eng

Biggest trade show in the NW Russia that is celebrating 10 year anniversary this year. The number of exhibitors at Interfood 2005 was 160 companies from 21 countries. The show attracted 12 000 visitors.

WORKING WITH A RUSSIAN IMPORTER

Selecting the right trade partner is probably the most important thing you can do to develop your business in Russia. An experienced and reliable importer can help you avoid the kinds of mistakes that could cost your company profits and sales. In this regard, banking and supplier references are essential, as is an examination of the company's experience and business history. There are local and U.S.-based organizations that can help provide this kind of information. However, be aware that credit reporting is still a relatively new practice

in Russia, and credit-reporting agencies may not have complete information on potential business partners.

DISTRIBUTION CHANNELS

Most importers also act as a primary wholesaler or distributor.

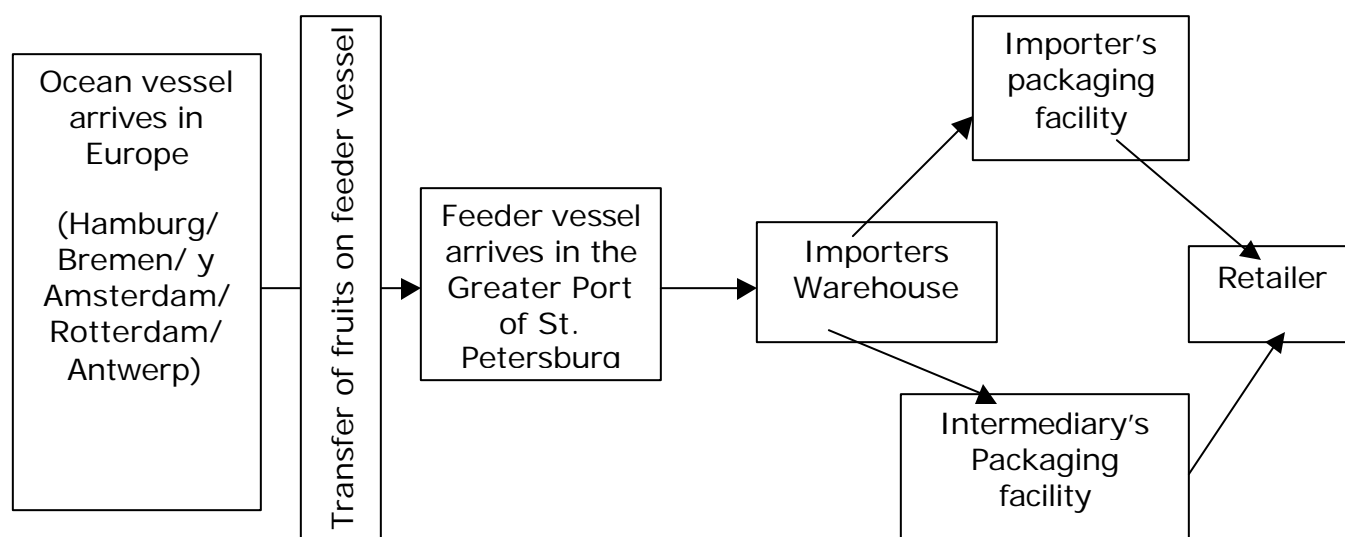
The entry of large foreign supermarket/hypermarket chains has had a fundamental impact on food distribution in Russia. Increasingly, these large retailers are buying in bulk directly from local manufacturers. At the same time, the increasing buying power of these retail chains is encouraging consolidation and growth among distributors in an attempt to maintain some balance. Although, up to now, Russian retailers have done little direct import, several of the larger chains are beginning to bring in some items and a few are considering an even larger range of products. All operators of the market are busy with optimizing the process.

LOGISTICS AND TRANSPORTATION

Various routes are available for shipment of food products to Russia, each with its own advantages and disadvantages. Some products are sourced through Western European importers or brokers and transshipped by truck or boat to Russian ports. More direct imports previously came via Baltic or Finnish ports and then were shipped by truck or rail to St. Petersburg or Moscow. The advantage of these ports was greater efficiency, fewer problems with loss or damage, and overall lower handling costs. However, changes in Russian import requirements have largely redirected these shipments to Russian ports: St. Petersburg; Novorossisk; Vladivostok and Rostov-on-Don.

Most consumer-oriented food and beverage products enter through St. Petersburg and are customs-cleared there or in Moscow. In fact, the transportation system for shipping U.S. high value food products into Russia via St. Petersburg and Moscow is very well established. Transit time ranges from 20 days to 27 days depending on the origination, with an additional four days shipping time for final delivery by rail or truck to Moscow.

Figure 1. Distribution Channel for supermarkets. Import of transatlantic products via the Greater Port of St. Petersburg.



From Moscow, products may move further eastward by truck or rail to cities in Siberia and beyond. In fact, some products are shipped all the way to the Russian Far East (RFE).

However, most products destined for the RFE enter through the ports of Vladivostok, Vostochny, Vanino, Nakhodka and Magadan. Although Vostochny is the region's largest port by volume, the majority of U.S. food exports to the Russian Far East enter through Vladivostok.

CREDIT AND PAYMENT TERMS

While the Russian banking system has recovered markedly since the 1998 financial crisis, credit is still relatively expensive and can be difficult to arrange. In addition, Russian bank fees are often high, and it can take much longer to open letters of credit or transfer funds than is common in the United States. However, as the economy improves, the financial operations of Russian banks also are improving. About half the banks that are authorized to open foreign currency accounts also have general licenses enabling them to undertake a full range of foreign currency transactions. Many of these banks have correspondent banks in the United States. Further, several American and foreign banks such as Citibank, J.P. Morgan, Rafeissenbank, Societe Generale, and Credit Suisse are licensed to operate in Russia.

Russian importers are accustomed to making 100 percent prepayment prior to shipment. Where business relationships have become well established, simple bank transfers often are made on the basis of payment on delivery or payment after an agreed number of days. A letter of credit (LC) may be used when required by the foreign supplier, but LCs are expensive and sometimes difficult to arrange, so this is not a favored payment method. Many foreign exporters, particularly those in Western Europe, are offering credit terms to selected partners. Documentary Collections work very well at ports and importers are accustomed to these procedures.

USDA credit guarantee programs (Supplier Credit, GSM-102) can help overcome some of these financing problems. The credit guarantee program operates with a specific country program for Russia and Russia also is included in a separate Eurasia program. As of December 16, 2005, the Russia-only program was fully utilized, but coverage was still available in the Eurasia program. At present Supplier Credit is not available for Russia due to the need for regulatory updates to the program. For further information on these programs, please visit the FAS website (www.fas.usda.gov) the FAS Moscow website (eng.usda.ru) or contact ATOMoscow (see SECTION V. KEY CONTACTS AND FURTHER INFORMATION).

FOOD STANDARDS AND REGULATIONS

Please, review the Moscow Agricultural Affairs Office (AAO), Moscow FAIRS Reports RS5025, RS5026, RS5008, RS5009 <http://www.fas.usda.gov/scripts/AttachRep> Russia has complex food import regulations and exporters should carefully question importers regarding certificates and procedures needed for clearance into the Russian Federation. USDA has provided substantial reporting on these issues in the reports listed above and on our website <http://eng.usda.ru/> at the Market Access page.

PRICING

Product pricing for the Russian market, as elsewhere, is essentially determined by local market conditions. In fact, retail prices can sometimes vary significantly between relatively nearby cities and even areas within the same city. However, with the spread of large retail chains, pricing is becoming more competitive.

To understand how final prices and margins are determined, it is important to understand the impact of the Russian tax system. The product retail price is based on a several factors/assumptions:

- Import duties vary by product, but generally range from about 5-30 percent (see Appendix III)
- An 18 percent value-added tax (VAT) is levied on imports at the point of entry (note: the VAT on some food products is only 10 percent)
- Customs clearance charges add about 1.25 percent The wholesale mark-up is typically 12-15 percent, while retail mark-up runs 35 percent or more, depending on the product and the retailer
- A profit tax is assessed at 39 percent of gross margin

SECTION III. MARKET SECTOR STRUCTURE AND TRENDS

As the Russian economy continues to grow and consumer incomes rise, there are emerging opportunities for a wide range of U.S. food products. Following is an overview of the three major food and beverage sectors -- food retail, food processing and food service (HRI). While each sector offers a unique set of challenges, there are also many interesting possibilities for U.S. exporters. For more detailed analysis, please refer to the other reports provided in *SECTION V. KEY CONTACTS AND FURTHER INFORMATION*.

THE RETAIL FOOD SECTOR

- ❖ Russia is one of the fastest growing retail food sales market in the world, with the potential to again double in size by 2008, just as it did since 2001.
- ❖ Fast growing retail market. Retail sales grew impressive 12% in 2004 to \$198.3 billion dollars of which \$80 billion was in food products. 44% of products sold through retail are imported products.
- ❖ Moscow consumers continue to spend 70% of their incomes on consumer goods, the highest ratio in Europe (Interactive Research Group)
- ❖ Modern retail formats (both local and foreign chains are going into regions increasing total demand for quality products
- ❖ Only 2/3 of the present demand is satisfied
- ❖ Russia's economic improvement over the last five years has increased consumer purchasing power and demand for quality products

Among the main focuses of retail chains in 2004 and 2005 were: construction of new retail complexes in Moscow as well as in most regions of Russia (St. Petersburg, Nizhniy Novgorod, Samara, Kaliningrad, Yekaterinburg, Ufa, Tumen, Krasnodar, Yaroslavl, Voronezh, Lipetsk etc.); development of franchising; purchase of existing retail multiples.

The entry of foreign chain operators like Ramenka, Auchan and Spar, which possess significant financial resources for penetration into the Russian market, also resulted in growing investment made by local players into their chains. The largest operators, such as Perekrestok, Sedmoi Kontinent and M Video, converted companies from 'Ltd' to 'Inc' entities with the subsequent issue of bonds (Euromonitor).

According to experts, modern formats still don't possess a significant share of the market. In Moscow, despite the active development of chain operators, their share amounts about 24%. This percentage will undoubtedly grow.

In 2004, the turnover of 5 major retailers (Pyaterochka, Auchan, Perekryostok, Ramstor, 7 Continent) matched the sum turnover of the main producers supplying the chains. That

gave the retailers another opportunity to expand their influence on the suppliers. The struggle over spheres of interest is tough and retailers seem to be winning it. Another advantage that retailers are taking against their suppliers is implementation of private label.

Starting in 2001, several retail chains began to offer private label products. Nowadays, Ramstor, Metro Cash&Carry, Spar, Pyaterochka, Kopeika, 7Continent and others are developing their private label products and hoping that consumer awareness will increase. So far, consumers are doubtful about the quality of such goods and believe that private label products are for people who are willing to save money. This most likely happens because packaging doesn't meet consumers' expectations. According to an AC Nielsen survey conducted in 2005 among Internet users, 60% of Russian citizens consider private label able to compete with branded products, which is lower than the results of Western Europe (about 80-85 percent), but higher than in such countries as India, China, Poland (55-50 percent). According to experts, the leaders of private label products are milk, cheese, water, ready-to-eat cooled meals. Retail chains announce their plans to increase the share of private label products in their outlets to the level of 10-12% next year.

Listing fees and strict quality requirements are becoming a stumbling block between modern format retail outlets and producers. According to expert evaluation, suppliers have to pay \$200 – 300 for each unit they plan to sell in the outlet. Still, in fresh produce, meat and fish departments products that are supported by marketing programs sponsored by a supplier can get listed in the store with a discount. In produce and meat departments, for high quality goods, sometimes listing fees are waived entirely.

ADVERTISING AND PROMOTIONAL ACTIVITIES

Promotional activities in retail chains are common. The most common retail marketing method is merchandising (separate displays, power-zones, shelf trays), seasonal sales, internal radio announcements, "SALE", or "BARGAIN" signs. All these marketing tools are usually organized in the alcohol, snacks, confectionery, meat departments of a retail outlet.

Retailers' leaflets that are distributed in the shop itself, delivered to customer's homes and distributed on the streets usually do have information on several items from each department of the outlet and include the brand name or logo of the product. Usually, such activities are organized by the managers who are in charge of each department.

Russian customers can be reached through advertisements on TV, radio, newspapers and magazines and billboard media. There is a large number of specialized magazines with the all-Russia circulation. During the past years, culinary shows have flooded TV programs, which can also work as a good advertisement for your products.

Please refer to GAIN Report Number: RS5302 for more detailed information on the Russian retail market. <http://www.fas.usda.gov/scriptsw/AttacheRep>

THE HOTEL, RESTAURANT, AND INSTITUTIONAL (HRI) SECTOR

- ❖ Sharp increases in consumer income, pent-up consumer demand, and expanding tourism are creating a boom in Russia's HRI sector
- ❖ Fast-food chains, both foreign and home-grown versions, are expanding by 14-16 percent annually
- ❖ Sales for mid-level or "democratic" restaurants are growing even faster - as much as 30 percent per year
- ❖ Coffee shops are seeing the fastest growth – 20-25 percent or more annually

Eating out and take out food is now often connected to increasing frequent trips to new retail formats (supermarkets, hypermarkets, and malls) and after-work convenience foods. Cafes and fast food establishments have capitalized on increased consumer income and desire for convenience foods. Amazingly, experts estimate that 90 percent of all food prepared in restaurants and cafes in Western Russia is imported.

There are about 15 restaurants in Moscow and 10 restaurants in St. Petersburg that serve American cuisine. Key concerns that are important to Russian restaurants are food or ingredient price and availability. Price is an obvious concern for most restaurants because of the large number of individual, independent owners. They typically purchase on a small scale and generally have a demanding, but price sensitive clientele. Showing restaurants how to maximize the value of a product or use less expensive substitutes is often helpful. As there are few restaurants with significant buying power, they often work hard to find the supplier with the best price. Lastly, developing new menu items depends on the constant availability of U.S. products.

Established restaurants also work through one or more food service distributors, both wide-spectrum and specialized distribution companies. While many restaurants like having a large choice of products from one company, many continue to work with the specialized suppliers because of their client orientation and convenient delivery services. Some restaurants also purchase ingredients through cash and carry retailers. Though this is more common for small restaurants and cafes, low prices on bulk items attract a variety of HRI consumers.

This segment is full of opportunities for U.S. exporters because of the wide variety of imported foods used and the wide range of qualities (from premium to economy) demanded from different customers. It is very easy to find a niche for any product. The best prospects are for bakery ingredients, meat, seafood, and wine.

Please refer to GAIN Report Number: RS5060 for further information on HRI sector in Western Russia. <http://www.fas.usda.gov/scripts/AttacheRep/>

THE FOOD PROCESSING SECTOR

- ❖ Local processors more and more must meet international quality standards. They pay more attention to quality of ingredients they use.
- ❖ Russian food processing companies continue to expand and modernize their production facilities. This stipulates their demand for high quality ingredients.
- ❖ Local food industry has become one of the most dynamic sectors of the Russian economy, with an average increase of 15-20 percent per year.

Russia's food processing industry has been growing rapidly in recent years, with a significant output increase of 25 percent in 2003, which was valued at \$32.5 billion. In 2004, reports are that the industry grew 18 percent. Consumer markets are not yet saturated with products. These trends are expected into the future keeping prospects bright for continued development at the pace of 10-15% a year. Most local food processors trying to compete in the market are quality-oriented, rather than price-oriented ingredient consumers. Many companies report that raw resources and specialized ingredients for meat, bakery, confectionary, juice, and dairy processing available from Russia domestically are not sufficient to satisfy their needs in the future.

Russia's imports of raw materials for processing is already quite large, in particular for the meat, dairy, fruits and vegetables, nuts, sugar, fish, and vegetable oils, exceeds \$6 billion annually and is growing quickly. Trade potential for specialized ingredients in food processing is understood by examining essential oils. In this category, Russian imports are growing

18% per year and in 2003 were \$113 million. At present growth this figure will double by 2008.

SECTION IV. BEST HIGH-VALUE PRODUCT PROSPECTS

Russia's imports from the United States, while dominated by poultry, have begun to diversify. Red meat (beef and pork) exports were down in 2004 due to the ban Russia imposed on U.S. exports after the discovery of BSE in the United States in 2003. This ban hit hardest beef liver imported primarily by Russia for use in the meat processing industry. While overall red meat exports were off, U.S. pork is doing quite well, jumping 640% last year. As a group, food ingredient exports were down in 2004, due only to non-economic reasons related to one specific component. All other food ingredients saw staggering 88% growth. Tree nuts (such as almonds), seafood, and snack foods all grew impressively last year and have a bright future. While fresh fruits and wine sales appear to be quite moderate, official statistics underreport this trade due to heavy transshipments to Russia through Europe.

Following are suggested best prospects for U.S. exporters:

Fresh fruit (apples, pears, grapes, grapefruit)

According to the World Trade Atlas, in 2002, Russia imported 2.4 million tons, in 2003 3.2 million tons, in 2004 3.74 million tons of fruit, growing more than 15 percent each year. Fruit trade value in 2004 reached a record \$1.6 billion, 40 percent more than in 2003. Russia is the world's largest importer of fresh fruit among the emerging markets, and is ranked sixth globally in fruit imports behind only the wealthiest nations, the United States, United Kingdom, Germany, Japan, and Canada. Lack of marketing and brand awareness in the fruit industry will benefit exporters to Russia who are willing to start advertisement activities in Russian stores and grocery markets. While U.S. exports to Russia of fresh fruit are quite small, at current growth rates, with aggressive marketing, it may become a top-ten market in 2006. U.S. fresh fruit companies and trade associations were exhibiting at World Food Moscow in September 2005.

Please refer to GAIN Report Number RS5307 for further information on fresh fruits.
<http://www.fas.usda.gov/scripts/AttacheRep/>

Nuts (almonds, pistachios, pecans) and dried fruits

Domestic consumption continues to expand for a wide variety of edible nuts, including almonds, hazel nuts, and pistachios. Nuts are popular as both sweet and salty snacks. In addition, the fast-growing confectionery industry uses nuts in a variety of chocolates and baked goods. In particular, imports of U.S. almonds are expanding sharply, although direct import figures do not reflect the actual level as large volumes of U.S. almonds are also imported through Western Europe. Comparison of the total Russian import volume of January-September 2004 and the same period of 2005 shows imports growth of over 55%. In 2004, imports of tree nuts valued \$ 31 million.

Wines

Fueled by stable economic growth over the last six years, Russia is one of the most rapidly growing wine markets in the world with an average 30 percent wine consumption increase per year. Although Russian consumers still drink a greater quantity of popular wine labels from CIS countries like Moldova, Georgia, and European wines from France, the popularity of New World wine is growing steadily. U.S. wine exporters to Russia have excellent

prospects. Chile and Argentina are the leaders among the other 'New World' countries in the Russian imports. In addition, this year French exporters are going to invest about one million Euros in wine promotion to Russia, three times more than last year.

Please refer to GAIN Report Number RS5306 for further information on wines

Please refer to GAIN Report Number RS5009 for further information on complete report on the laws and regulations that govern wine exports.

<http://www.fas.usda.gov/scripts/AttacheRep>

Ready/prepared/chilled/canned/frozen foods and vegetables, and microwaveable foods

Ready/prepared/chilled/canned/frozen products are relatively new market areas that continue to see growing sales, underpinned by the time-saving concept and increasing quality and variety. Among most popular frozen foods are: ravioli, hamburgers, pastry, minced meat, stuffed vegetables, crepes with different stuffings. Such parallel industries as fast food restaurants will have a visible impact on the specific products as well.

Frozen processed potatoes will be in strong demand. Many small cafés and mobile fast food kiosks find it more convenient to use frozen products for fast cooking as it comes in a prepared format, i.e. vegetables are cut and potatoes ready to be cooked into chips. Frozen pizzas will enjoy increasing popularity, as there are not many places in the foodservice channel that are prepared to offer freshly made pizzas.

Statistics on Foodservice Sales of Packaged Food by Sector: Volume 1999-2004, thousand tons

	1999	2000	2001	2002	2003	2004
Ready meals	6.00	6.67	8.05	9.45	10.44	11.42
Soup	3.68	3.91	3.82	3.58	3.34	3.09
Canned/preserved food	15.27	16.21	17.32	18.47	19.38	20.29
Frozen processed food	45.00	48.63	55.27	63.18	72.11	82.79
Dried processed food	87.57	91.46	95.62	101.31	105.80	110.69
Chilled processed food	117.00	125.49	134.37	145.53	152.39	160.86

Source: Euromonitor

Snacks

Increasing beer consumption will be the major force behind rising savory snack sales. According to the Euromonitor, in 2004, sweet and savory snacks grew by 11% to reach approximately \$ 982 million.

According to the research done by Comcon-Media performed in 2005, most popular sweet snacks among kids aged 4-15 are: ice-cream, chocolate bars, chewing gums, chocolate eggs with toys, cookies, chewing sweets, chewing marmalade. All major producers are represented on the market: Cadbury, Chupa-Chups, EVR, Mars, Nestle, Perfetti Van Melle. With the growth of the overall personal disposable incomes Russian kids are getting more of pocket money, which was quite uncommon historically. So, many of these goods are purchased by kids on their own. According to AC Nielsen, most sweeties are purchased in

convenient stores, supermarkets, kiosks. Moscow region is a leaders in this segment of goods.

Together with a growing number of modern format movie theatre, popularity of popcorn is rapidly rising. Times when popcorn was something rare have passed and more people are looking into the novelty of the market – popcorn bags that are easy to cook in the home microwave.

Fish and seafood

As Russian consumers are becoming more concerned about their health, fish consumption is growing. In 2004, fish imports reached about \$ 700 million, showing 60% growth from 2003.

U.S. fish and seafood product exports will continue to grow and may reach \$30 million in 2005, up from \$23.1 million in 2004. High-quality fish, in particular for retail sale and in the hotel/restaurant sector, are growing in demand. Due to Russian industry's strong export focus, the domestic retail market is growing and relies heavily on imported fish and seafood.

Please refer to GAIN Report Number RS5008 for further information on fish and seafood.
<http://www.fas.usda.gov/scripts/AttacheRep>

Confectionery

According to World Trade Atlas, in 2004, Russia imported \$349 million worth of confectionery goods (bread, pastry, cakes, biscuits, chocolate, sugar confectionery) and showed growth of 81% for bread, pastry, cakes and biscuits (HS 190590), 18% for chocolate (HS 1806) and 15% for sugar confectionery from 2003. USA exports to Russia equaled \$9.4 million, almost 90% of which is chocolate. Among leading confectionery importers to Russia are Germany, Ukraine, Poland, Belgium, France, Italy and South Korea. As the A.C. Nielsen survey shows, sweet cookies, waffles, pastry, spice-cakes, salty cookies are leaders of sales among Russian urban consumers in 2004-2005.

Food ingredients

Russia's food processing industry has been growing rapidly in recent years, with a significant output increase of 25 percent in 2003, in 2004, the industry grew by 18 percent and valued at \$38.4 billion. Due to the growing preference for Western style food and beverages, rising consumer incomes, and a significant population of 143 million, Russia is an excellent prospect for exporters to supply food processors. Consumer markets are not yet saturated with products. These trends are expected to continue, keeping prospects bright for U.S. exporters. Most local food processors trying to compete in the market are quality-oriented, rather than price-oriented ingredient consumers. Many companies report that raw resources and specialized ingredients for meat, bakery, confectionary, juice, and dairy processing available from Russia domestically are not sufficient to satisfy their needs in the future.

Please refer to GAIN Report Number RS5301 for further information on food ingredients.
<http://www.fas.usda.gov/scripts/AttacheRep/>

Following are suggested best prospects for U.S. exporters by sector:

Product Category	2004 Imports	2004 Import	5-Yr. Avg.	Import Tariff	Key Constraints	Market Attractiveness
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	from USA	s	Annual Import Growth	Rate	to Market Development	for USA
Fresh Fruits		3.75 mmt	12.7%	Apples: (Jan 1-Jul 31) 0.1 Euros per kg (Aug 1-Dec 31) 0.2 Euros per kg + 18% VAT Pears: 10% + 18% VAT	Strong competition from Poland, China, Moldavia for apples; Argentina and China for pears.	Good potential as a niche market for U.S. apples, pears, grapes, citrus. Especially during February- April period.
Dried fruits	Raisins - \$162 thousand	Raisins - \$24 million	10.7%	5%, but not less than 0.02 Euros per kg + 18% VAT	Tough competition from Iran, Tajikistan, Afghanistan and Uzbekistan for bulk dried fruits.	U.S. raisins and prunes competitive for quality retail and processing market.
Tree nuts	Nuts - \$5 million Almonds - \$4.6 million	Nuts - \$23 million Almonds - \$4.8 million	Nuts - 29%	Tariff depends, 18% VAT	Iran biggest competitor for peanuts and pistachios; Tajikistan for walnuts.	U.S. almonds enjoying very strong growth. Good potential for U.S. pecans and other nuts.
Wine	\$2.3 million	\$ 445 million	18%	GAIN Report RS5009, www.fas.usda.gov	Lack of US wines promotion, strong positions of other importers (Moldavia, Burglary, France, Italy, Spain, Chile)	
Fish and Seafood	\$ 23.1 million	\$642 million		10% + 10-18% VAT	Recovery in local catch/production, expected higher prices.	Opportunities for groundfish and salmon, especially underutilized species, for processing. Growing demand for high value products

						for HRI and retail.
Confectionery	HS190590 – pastry, cakes, bread- \$200 thousand HS1806 – chocolate – \$8.2 million HS 1704 – sugar pastry – \$ 1 million	HS190590 – pastry, cakes, bread- \$29 million HS1806 – chocolate – \$229 million HS 1704 – sugar pastry - \$ 91 million				
Snack Foods	\$9 million	\$385 million	-8%	5% - 15%, but not less than 0.15 – 0.075 Euro/kg (duty depends on product, size of package, sugar content, etc.) + 10% - 18% VAT	Strong competition from local producers, including some foreign brands such as Lay's (PepsiCo) and Estrella (Kraft) – Pringles from Europe.	Good potential for high quality U.S. snacks: popcorn, nuts, dried fruits mixes.
Rice	0.002 MMT	0.46 MMT	12%	10%, but not less than 0.03 Euros per kilo + 10% VAT	Some local production and low-priced competition from China/Vietnam	Opportunity for high quality U.S. rice, wild rice in HRI and retail.
Wine	0.4 mln liters	229 mln liters	7.4%	20%, + 18% VAT	Competition from locally produced beer, vodka, plus wine imports from Europe.	Existing wine-drinking culture getting boost from GOR policy to reduce hard alcohol (vodka) consumption. Especially good potential for medium-priced wines.

Pet food	\$4 million	\$61 million	15.3%	20%, but not less than 0.16 Euros/kg + 18% VAT	Strong local production - Mars has two plants that produce Whiskas, Kitekat, Pedigree; Nestle's Purina produces Friskies and Darling locally; other imported and local brands, some very inexpensive	Large number of pets and limited consumption
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SECTION V. KEY CONTACTS AND FURTHER INFORMATION

Contact Information for FAS Offices in Russia and in the United States:

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 PSC 77 AGR
 APO, AE 09721

For international mail:

Agricultural Trade Office
 U.S. Embassy - Box M
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 00140 Helsinki, Finland

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 191186 St. Petersburg, Russia
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For General Information on FAS/USDA Market Promotion Programs and Activities:

AgExport Services Division
Room 4939
14th and Independence, SW
Washington, DC 20250
Tel: (202) 720-6343; Fax: (202) 690-0193

FAS Website: www.fas.usda.gov

For Trade Policy/Market Access Issues, General Information on the Russian Agricultural Sector, etc:

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Office of Agricultural Affairs
American Embassy
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121099 Moscow, Russia
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E-mail: agmoscow@usda.gov or agmoscow@corbina.ru

To learn more about USDA/FAS AND ATO services please visit <http://eng.usda.ru>.

OTHER MARKET REPORTS

Attache reports on the Russian food and agricultural market are also available on the FAS website www.fas.usda.gov/attache.

OTHER USEFUL CONTACTS:

The ATO/Moscow works with a large number of U.S. industry organizations, some of which have local offices to assist U.S. exporters of these food and agricultural products. Find these contacts at eng.usda.ru.

U.S. Poultry and Egg Export Council (USAPEEC)
E-mail: usapeec@usapeec.ru

U.S. Meat Export Federation (USMEF)
E-mail: Moscow@usmef.org

U.S. Wheat Associates
E-mail: uswmow@dol.ru

U.S. Grains Council (USGC)
E-mail: fgcmow@online.ru

Pear Bureau Northwest
E-mail: katerina@newmark.ru

Washington Apple Commission
Moscow office:
office@bestapples.ru
Vladivostok office:
katerina@newmark.ru

Almond Board of California
E-mail: Irina.Koziy@mail.ru

American Soybean Association
E-mail: soyaru@rol.ru

California Wine Institute
E-mail: dc_wines@mail.ru

Pet Food Institute
E-mail: agerman@globalworks.ru

National Renderers Association
E-mail: lischenko@ane.ru

Another good source for information on doing business in Russia, the American Chamber of Commerce which has offices in Moscow and St. Petersburg:

American Chamber of Commerce in Russia (AmCham)
Ul. Dolgorukovskaya, Building 7, 14th floor
127006 Moscow, Russia
Tel: 7 (495) 961-2141; Fax: 7 (495) 961-2142
Email: amchamru@amcham.ru

American Chamber of Commerce in St. Petersburg
25 Nevsky Prospect, 3rd Floor
191186 St. Petersburg, Russia
Tel: 7 (812) 326-2590; Fax: 7 (812) 326-2591 or 326-2561
Email: st.pete@amcham.ru

For questions on agricultural machinery, food processing and packaging equipment/materials, refrigeration equipment, etc., please contact:

U.S. and Foreign Commercial Service
Bldg. 2, 23/38 Bolshaya Molchanovka
121069 Moscow, Russia
Tel: 7 (495) 737-5030; Fax: 7 (495) 737-5033
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APPENDIX I. STATISTICS

Table A: Key Trade & Demographic Information ^{1/ 2/}

Agricultural Imports From All Countries (\$Billion) ^{3/}	12.9
Consumer Food Imports From All Countries (\$Billion) ^{3/}	7.7
Edible Fishery Imports From All Countries (\$Million) ^{3/}	642
Total Population (Millions)/Annual Growth Rate (%)	144.2
Urban Population (Millions)/Annual Growth Rate (%)	105.8 / 1.3
Number of Major Metropolitan Areas ^{4/}	13
Size of the Middle Class (Millions)/Growth Rate (%) ^{5/}	25 / 27
Per Capita Gross Domestic Product (US\$) ^{6/}	4,000
Unemployment Rate (%) ^{6/}	8.6
Per Capita Food Expenditures (US\$) ^{7/}	530,8
Percent of Female Population Employed ^{8/}	88
Exchange Rate (US\$1 = 28.9 Rubles)	As of December 2005

^{1/} Unless otherwise noted, 2004 data^{2/} Source: Unless otherwise noted, Russian State Statistics Committee (Goskomstat)^{3/} Source: GTI World Trade Atlas^{4/} Population in excess of 1,000,000^{5/} Source: Various - based on estimate of individuals earning US\$500-\$2,000 per month^{6/} Source: Goskomstat^{7/} Source: Estimate based on annual total retail food sales^{8/} As percentage of economically-active female population (employed or actively seeking employment)

- female workers account for 41% of the total economically-active population.

Table B: Consumer Food & Edible Fishery Product Imports

	Imports from the World (Million Dollars)			Imports from the U.S. (Million Dollars)			U.S Market Share (Percent)		
	2002	2003	2004	2002	2003	2004	2002	2003	2004
CONSUMER-ORIENTED AG TOTAL	5,617	6,687	7,735	535	534	529	10	8	7
Snack Foods (excl. Nuts)	252	307	385	1	3	9	0	0	2
Breakfast Cereals & Pancake Mix	11	11	10	1	1	1	2	2	6
Red Meats, Fresh/Chilled/Frozen	1,414	1,426	1,470	70	53	29	5	4	2
Red Meats, Prepared/Preserved	64	58	69	1	1	1	2	2	1
Poultry Meat	816	698	663	417	405	396	51	58	60
Dairy Products (excl. Cheese)	188	264	286	1	1	1	1	0	0.12
Cheese	235	355	462	1	1	1	0	0	0.01
Eggs & Products	12	16	22	1	1	1	1	6	1
Fresh Fruit	742	1,053	1,463	3	2	3	0	0	0.2
Fresh Vegetables	224	377	416	1	1	2	1	0	0.37
Processed Fruit & Vegetables	380	451	528	6	5	4	2	1	0.85
Fruit & Vegetable Juices	131	148	173	1	3	3	1	2	2
Tree Nuts	23	25	31	6	4	5	26	16	16
Wine & Beer	361	497	576	2	2	2	0	0	0.42
Nursery Products & Cut Flowers	75	94	186	1	1	1	0	1	0.01
Pet Foods (Dog & Cat Food)	18	22	61	1	3	4	6	6	6
Other Consumer-Oriented Products	651	844	933	24	52	69	4	6	7

FISH & SEAFOOD PRODUCTS	382	481	709	5	9	23	1	2	3
Salmon	41	60	104	1	2	3	0.19	3	2
Surimi	11	21	34	1	2	6	4	10	17
Crustaceans	23	33	45	1	1	1	0	3	0.2
Groundfish & Flatfish	44	63	94	2	2	11	5	3	11
Molluscs	11	14	19	1	1	1	1	7	1
Other Fishery Products	251	290	413	2	3	4	1	1	0.93
AGRICULTURAL PRODUCTS TOTAL	9,443	10,699	11,878	713	663	714	8	6	6
AGRICULTURAL, FISH & FORESTRY	10,001	11,422	12,891	721	674	740	7	6	6

Source: FAS' Global Agricultural Trade System using data from the United Nations Statistical Office

Table C: Top 15 Suppliers of Consumer Foods & Edible Fishery Products

CONSUMER-ORIENTED AG TOTAL (\$1,000)				FISH & SEAFOOD PRODUCTS (\$1,000)			
	2002	2003	2004		2002	2003	2004
Ukraine	461,391	681,443	831,047	Norway	157,484	198,650	306,623
Brazil	712,803	719,120	780,518	United Kingdom	24,465	32,720	45,009
United States	535,354	533,889	529,174	Denmark	24,069	28,069	38,472
Germany	487,685	461,326	517,734	China (Peoples Republic of)	19,493	24,949	33,526
Poland	284,792	376,801	442,017	Latvia	39,674	39,740	30,110
Ecuador	191,361	261,244	362,174	Mauritania	12,233	18,940	25,641
Netherlands	271,722	319,268	319,013	United States	4,809	8,750	23,235
Moldova, Republic of	173,791	258,946	284,828	Iceland	532	3,462	18,465
France	232,904	272,931	284,179	Lithuania	16,784	20,315	17,011
China (Peoples Republic of)	222,881	242,828	272,341	Chile	6,204	7,084	15,267
Argentina	73,010	141,963	258,919	Canada	3,445	3,987	14,669
Uzbekistan, Republic of	86,962	129,967	232,597	Kazakhstan, Republic of	12,952	12,658	13,502
Spain	146,682	187,441	210,414	Argentina	578	4225	13,359
Italy	147,116	181,249	209,661	Estonia	7,602	5,036	10,515
Turkey	122,545	138,341	177,401	Ukraine	6,634	5,434	9,313
Other	1,465,889	1,780,222	2,023,023	Other	44,611	66,925	94,033
World	5,616,928	6,687,040	7,735,116	World	381,570	480,948	708,746

APPENDIX II. OTHER ECONOMIC AND DEMOGRAPHIC DATA

The Russian economy has expanded sharply following the 1998 economic crisis and Ruble devaluation. The table below shows this growth during the 1997-2004 period.

Table A: GDP Growth (%), 1997-2004

1997	1998	1999	2000	2001	2002	2003	2004
1.4	-5.3	6.4	10.0	5.1	4.7	7.3	6.8

Source: *Business Monitor International*

As indicated in the following table, the Russian population is largely urban. The two largest cities are Moscow (nine million) and St. Petersburg (five million). Although not widely known, Moscow's total metropolitan population of nearly 18 million makes it the largest city in Europe. Another 12 cities across Russia have populations in excess of one million each.